

DRAFT

TRANSITION ADVISORY COMMITTEE

February 17, 2000 - Metcalf Bldg
Original Minutes with Attachments

COMMITTEE MEMBERS PRESENT

Sen. Fred Thomas, Chair	Bob Anderson
Rep. Joe Quilici, Vice Chair	Ed Bartlett
Rep. Ernest Bergsagel	Neil Colwell
Rep. Tom Dell	Art Compton
Sen. Steve Doherty	Paul Farr
Rep. Stanley Fisher	Kathy Hadley
Rep. Royal Johnson (via teleconference)	Gene Leuwer
Sen. J. D. Lynch	Bob Nelson
Sen. Walter McNutt	Don Quander
Rep. Ray Peck	Roma Taylor
Sen. Mike Sprague	Dave Wheelihan

COMMITTEE MEMBERS EXCUSED

Sen. Bill Wilson
Stephen Bradley
Stan Dupree

STAFF MEMBERS PRESENT

Stephen Maly
Todd Everts
Judy Keintz, Secretary

VISITORS' LIST

Attachment #1

COMMITTEE ACTION

< Approved the minutes of the November 5, 1999 meeting.

- < Endorsed the continuance of Montana's participation in the Legislative Council on Columbia River Governance.
- < Revised and adopted the Budget Subcommittee's report and recommendations.
- < Set next meeting date for April 21, 2000, in Billings

I WELCOME AND ROLL CALL

CHAIRMAN THOMAS called the meeting to order at 9:00 a.m. Roll call was noted; SEN. BILL WILSON, STEPHEN BRADLEY and STAN DUPREE were excused, **Attachment 2**.

< Adoption of Minutes

Motion/Vote: MS. HADLEY MOVED THAT THE MINUTES OF THE NOVEMBER 5, 1999, TAC MEETING BE APPROVED AS WRITTEN. THE MOTION CARRIED UNANIMOUSLY.

II MONTANA POWER COMPANY's (MPC) CLOSURE ON THE SALE OF ITS GENERATION ASSETS TO PP&L GLOBAL

Mike Manion, Assistant General Counsel - MPC, reported that MPC's sale of generation assets to PP&L Global was completed on December 17, 1999. The sale yielded approximately \$757 million in proceeds. This amount is approximately \$200 million above the book value of the generating assets. The MPC was able to recover the book value of the generating assets and the regulatory assets which includes such items as deferred taxes, conservation items, etc. An interim filing has been made with the Public Service Commission (PSC) to reduce rates by approximately \$16 million. This results in a savings of \$21 per year to the average consumer.

The qualifying facility (QF) contracts are of significant concern and need to be addressed. The MPC and its customers have a cost obligation of approximately \$700 million over the life of these contracts. Of the \$700 million amount, approximately \$400 million includes out-of-market costs. Currently, the price is 5.6 cents per kwh and the market price is 2.6 cents per kwh. They are trying to buy down the contracts. The contracts which are not negotiated will result in QF payments above market costs. Accordingly, there will be transition costs resulting from the QF costs. The MPC believes these costs should be tracked. The actual market value of the contracts would be compared to the cost and adjusted on a yearly basis. In its recent order, the PSC held that SB 390 does not allow for tracking these costs. One way to value the QF costs is to predict future market costs, bring that back to present value and arrive at a final amount. This would be a stranded cost. The MPC is in disagreement with the PSC on this issue.

Another issue arising from the Tier Two proceeding is whether SB 390 implemented a rate "freeze" or a

rate “cap”. The MPC believes that SB 390 implemented a rate freeze which would provide that rates could not go up or down. Other parties argue that SB 390 implemented a rate cap which would provide that rates could not go up but could go down. The MPC will be filing a lawsuit in district court to test the interpretation placed on SB 390 in regard to the issues of tracking and rate freeze/rate cap. This will affect the remainder of the Tier Two proceeding schedule.

SEN. LYNCH maintained that during the debates in the 1997 Legislative Session, there was no suggestion that rates could not be decreased. **Mr. Manion** related that the legislative history includes discussions on the rate cap/rate freeze issue. Both senators who addressed the issue spoke of a rate freeze.

MR. BARTLETT added that the issue pertains to the transition period only.

CHAIRMAN THOMAS questioned whether the law permitted rates to increase. **Mr. Manion** remarked that there were exceptions for decreases and increases in taxes and revenue requirements. Also, extraordinary circumstances are addressed.

MR. QUANDER conveyed that the MPC filed a request to recover an additional \$1.5 million from ratepayer costs associated with customer education expenses. This is one of the exceptions to the rate cap.

CHAIRMAN THOMAS questioned the time line for the QF contracts. **Mr. Manion** explained that some contracts extended for 35 years.

CHAIRMAN THOMAS further questioned whether there had been a reduction in rates due to lower property taxes. **Ernie Kent, Tax Manager - MPC**, explained that the MPC did not own the properties any longer. Their contract to purchase power from PP&L is at a fixed rate equal to the amount being recovered in rates. The MPC has seen a tax increase due to the wholesale energy tax.

CHAIRMAN THOMAS inquired whether or not the sales contract included language dealing with lower property taxes. MR. BARTLETT maintained that this was not addressed in the sales contract.

PAUL FARR, CEO for PP&L Montana, remarked that the wholesale transmission service agreement does not provide for a reduction due to a decrease in property taxes. However, the value paid for the assets is substantially higher than the book value. During the bidding process, their expectation was that there would be a 6% taxable value rate.

REP. FISHER questioned whether all entities involved were able to take advantage of the tax break from 12% to 6%. **Jon Alke, MDU**, held that MDU's rates were set in 1986. The tax reflected in the rates was approximately \$1 million. When the tax reduction took place 14 years later, the MDU's property tax bill had risen to \$2 million.

CHAIRMAN THOMAS questioned whether the MPC had provided the PSC with a financial statement regarding the sale of generation and also requested that the TAC be provided the information regarding the public asset funds. **Mr. Manion** remarked that the Tier Two filing included projections but this has not been updated. He will attempt to provide this data to the TAC.

SEN. SPRAGUE remarked that in regard to the QF contracts, he believed the Toston Dam contract had one of the higher contract rates. **Mr. Manion** affirmed and added that the MPC is trying to negotiate this contract. All the contracts have out-of-market costs.

CHAIRMAN THOMAS requested that a summary of the rates for the QF contracts be provided to the TAC.

SEN. SPRAGUE asked for more information on MPC's corporate and capital gains taxes in relation to the sale. **Mr. Kent** reported that in relation to the generation sale, MPC's projection is that they will pay \$21.1 million in taxes. The reason for the lower number is that Colstrip Unit 4 was not sold but there was a buy down contract. The state will realize another \$5.3 million in taxes due to this action. If the QF contracts are settled in the year 2000-2201, the settlement of the contracts will be a tax deduction to the MPC.

CHAIRMAN THOMAS asked for clarification regarding a tax reduction if the QFs were sold or settled. **Mr. Kent** explained that buying out a contract would result in a loss on the contract. There would be a cost in buying out the contract and no future income from the contract. This is a stranded cost and would be a deduction until it is reflected in rates.

III LEGISLATIVE COUNCIL ON COLUMBIA RIVER GOVERNANCE

SEN. TOM BECK, SD 28, remarked that the Legislative Leadership from Montana, Washington, Oregon and Idaho have been meeting regarding issues involving the Columbia River Basin. Discussions were also taking place between the Governors of the four states, the Native American Tribes, and the federal government regarding the reintroduction of fisheries, specifically salmon, on the Columbia River. It is important that the Legislative Council on Columbia River Governance be maintained. Since one of the

major players on the Columbia River System is the Bonneville Power Administration (BPA), he requested that the TAC support the Council.

Montana has an equal footing with the three other states on the Council. Each state is allowed four voting delegates to include two Republicans and two Democrats from the House and the Senate. The issues the Council will be addressing include the BPA's involvement in recreation, fisheries, and water distribution for irrigation systems. Some Congressmen are maintaining that the states in the northwest should not be receiving the economic benefit provided by the BPA system. It is essential that the four states work together in addressing the problems in the northwest.

The Legislative Council on Columbia River Governance needs to be addressed in the next legislative session. This Council needs to be attached to the Environmental Quality Council (EQC) and the TAC. Recently, the EQC passed a resolution endorsing the Council and he requested that the TAC also support the Council. The Legislative Council provided \$10,000 to fund the Council for the remainder of the year.

REP. DELL questioned how the four states would have leverage with the BPA. SEN. BECK stated that the legislative delegations from the four states were opposed to the proposed breaching of the dams. Their combined effort was given special attention. The legislatures need to be involved in this process. Collectively the four states will have more clout in Washington, D.C.

SEN. DOHERTY remarked that it is essential that the four states work together in addressing BPA issues. The Columbia River system involves a federal presence and an international presence. The northwest's power supply is lower in cost and is being coveted by other areas of the country. This value will increase in the future. In those instances, it is important that the four states work together as a united front. However, it may be in Montana's interest not to be united with the other states in some instances. This is an incredibly complex issues which includes the possibility of property rights litigation by Indian Tribes over the loss of their fishing rights. If this happens, the BPA may need to be sold.

REP. QUILICI remarked that Congressmen from New Jersey and Massachusetts have introduced the Power Marketing Administrative Reform Act. Interested parties in the Eastern United States are attempting to spin off the power going to the northwestern states. A four state combined voice is essential.

Motion: SEN. LYNCH MOVED THAT THE TAC ENDORSE THE CONTINUANCE OF MONTANA'S PARTICIPATION IN THE LEGISLATIVE COUNCIL ON COLUMBIA RIVER GOVERNANCE.

REP. FISHER inquired as to Montana's present membership on the Council. SEN. BECK stated that the present members are: SEN. BECK, SEN. DOHERTY, REP. CURTISS, SEN. MCCARTHY, SEN. SWYSGOOD, REP. LINDEEN, and REP. TASH. He further noted that only four delegates are allowed to vote. Costs would be paid for the four voting delegates.

MR. WHEELIHAN emphasized that it is important to realize that since the BPA is a part of the federal power system, there may be allies outside of the region who have the same interests as Montana.

COMMISSIONER ANDERSON rose in support of the motion. It is very important to present a united package to Congress. In the U.S. Senate, Montana has the same number of votes as the other states in the northwest.

SEN. DOHERTY added that the state legislatures are behind the learning curve. The Indian Tribes, the Cooperatives, and the direct service industries (DSIs) have significantly more information on the issues than most legislators. He noted that the major newspaper in Idaho has advocated breaching the dams as the most economic and soundest environmental proposal for the return of salmon.

Vote: THE MOTION TO SUPPORT THE LEGISLATIVE COUNCIL ON COLUMBIA RIVER GOVERNANCE CARRIED.

IV MONTANA POWER COMPANY's (MPC) CLOSURE ON THE SALE OF ITS GENERATION ASSETS TO PP&L GLOBAL - CONT'D

COMMISSIONER ANDERSON noted that the procedural schedule would most likely be disrupted by the MPC's challenge of the PSC's recent order. Since the issue is under litigation, it could not be discussed at this time.

MR. FARR remarked that both the MPC and PP&L were very committed to completing the sale which took place in December. The transition has been seamless for customers as well as employees.

SEN. SPRAGUE remarked that he has received many positive comments regarding the transition.

REP. QUILICI remarked that he has had conversations with many MPC employees and they are very satisfied with their new employer. He commended PP&L for realizing that the former MPC employees are an asset to the PP&L organization.

V DISCUSSION OF DEFAULT SUPPLY

MR. MALY provided a handout entitled, “Default Supply: A Staff Synopsis of an Ongoing Debate”, **Exhibit 1**. He explained that the PSC facilitated a round table discussion on February 7 and that his recollection of the discussion would differ somewhat from the recollection of others who were there.

The TAC may choose to respond to the default supply problem. Several options were presented:

- , leave the law alone; leave MPC/Local Distribution Companies as the default supplier, come what may
- , reiterate the motion passed on November 5, which encourages the PSC to present draft rules on default suppliers to the TAC on or before September 1, 2000
- , recommend legislative changes, to achieve greater clarity of purpose (e.g., repeal SB 406)
- , figure out a way to accommodate both camps, and also to anticipate changing conditions and factors in the electricity market, including a sale of MPC distribution assets, or a change in BPA policy that is favorable to the MEBC and local governments.

COMMISSIONER ANDERSON noted that there is a lack of clarity between SB 406 and SB 390. The missing piece is the definition of default supplier and the role that default supply will play in the pursuit of a competitive market. This is an issue that may need clarification in the next legislative session.

Procedurally, the PSC is on a track that is attempting to accommodate everyone’s interests. It is important that the MEBC be given every opportunity to fulfill the vision of SB 406. The MEBC is facing a daunting task.

MS. HADLEY noted that one of the concept’s behind the cooperative is to take advantage of BPA power. In the future, low cost BPA power is an asset that the consumer wants and needs to access. The MEBC cannot purchase electric products from the BPA until they are declared a default supplier. They feel continued pressure to become licensed as a default supplier so they can start negotiations with the BPA, prepare a business plan, and secure financing and capital. The concept behind the cooperative is to provide low cost, quality power.

Tom Schneider, City of Missoula, noted that the BPA’s decision on standards for service rejected the idea that Montana’s restructuring would satisfy their requirements to be a public preference customer. The BPA continues to maintain that in order to obtain preference power, public entities must own poles and wires and have a traditional utility obligation to serve. All the restructuring changes which have occurred to

allow public entities to form and be aggregators for their community were rejected. This was a loss to the State of Montana as well as the City of Missoula. The City of Missoula has decided not to go ahead with an appeal on the issue. They are not in a position to seek default supplier designation absent preference power. He urged that the MEBC be allowed to make their case regarding default supply. He added that the MEBC would do a good job in securing wholesale power for small customers.

Deb Smith, Natural Resources Defense Council, Renewable Northwest Project (NRDC/RNP), expressed a need to make a green power product available to MPC customers. The legislature stated that it was very important to make green power available to people in Montana and encouraged the development of this market. There is a short amount of time left before the USBP charge expires. Part of this money funds renewable power projects. With the designation of a default supplier, USBP funds can be used to develop a small wind park and make green products available to MPC customers willing to pay for it. Irrespective of the designation of default supplier, the default supplier needs to offer a green product and should be allowed to do so as soon as possible. Sixty percent of people living in the northwest do not have access to BPA's preference power. Montana's decision regarding default supply will have a large impact on the larger regional energy issue on both energy and fish concerns.

CHAIRMAN THOMAS questioned the need for a default supplier to be identified for the purpose of offering green power to customers. **Ms. Smith** insisted that SB 406 was explicit on the issue of a default supplier being able to offer a basic service and a green service.

CHAIRMAN THOMAS further questioned what would bar someone from offering green power today. **Ms. Smith** explained that green power is very expensive. People do not respond to mailings or advertising and marketers have decided that green power is not a profitable commodity.

REP. BERGSAGEL questioned whether the MEBC had contacted Enron or other energy supply companies regarding a partnership situation. MS. HADLEY remarked that such discussions have been taking place and the discussions have been favorable.

SEN. SPRAGUE remarked that he had always assumed there would be more than one default supplier. COMMISSIONER ANDERSON noted that there could be more than one default supplier; however, the situation could arise that only one entity would apply for default supplier designation.

SEN. SPRAGUE noted that there will not be choice until there are some options for supply. If the application process is relatively well-defined, the default suppliers could be assigned to customers who have

not chosen a supplier.

SEN. LYNCH claimed that, given the concerns regarding designation of default supplier, the TAC should request that default suppliers be declared as early as possible.

SEN. DOHERTY questioned the PSC's time line for designating a default supplier. COMMISSIONER ANDERSON explained that the PSC has suspended the procedural schedule. Complex issues are being discussed and various options are being reviewed.

SEN. DOHERTY inquired whether it was possible for the PSC to move more quickly to make the selection of default supply in the interests of the MEBC or other entities to move forward before the end of the transition period. COMMISSIONER ANDERSON noted that the PSC is obligated to implement the law. There would be value in having the TAC participate in the rule making process by having its opinions become part of the record considered in the process.

CHAIRMAN THOMAS questioned whether the MEBC could provide the option for Montana consumers to buy green power before being designated as a default supplier. MS. HADLEY believed they could do so but they need to be designated as a default supplier before they will know the data necessary to determine their load. The default supplier will have a load which varies depending on the customers in the base. According to the law, the customers can leave at will. This places the default supplier at a higher risk. The MEBC, if they are designated a default supplier, would like this designation as early as possible to negotiate and mobilize the most cost effective power resources they can obtain for the people of Montana who would like to be members of the cooperative.

CHAIRMAN THOMAS believed that the MEBC was not barred from offering green power at this time.

MR. COLWELL proclaimed that there are some inconsistencies between the legislative intent in SB 390 and SB 406. He further remarked that there is a risk in designating the default supplier early. Default supply is not well defined. If the MEBC were to be designated the only default supplier, they would not know the size and make up of their load. The mere designation of default supplier would not address a lot of problems for the MEBC. If competition does not exist, it may be necessary for the transition period to continue.

MS. HADLEY noted that, according to counsel for MEBC, the cooperative could not sell green power until they are designated as a default supplier. The law states that the buying cooperative may be organized only

for the purpose of supplying electricity to small customers as a default supplier. They are in the process of preparing to apply for default supplier. She further noted that at this time MEBC has not made a decision on whether or not to sue the BPA over the preference power issue.

REP. BERGSAGEL maintained that there are two entities in the state that have the ability to purchase power and are not considered default suppliers. These two entities are Western Area G & T and Central Montana G & T. They are serving cooperatives in various parts of the state and not specific small customers.

MR. MALY added that the MEBC is a creature of statute and as such is not akin to other cooperatives or business organizations that are allowed to conduct business of their choice. This organization is specifically tied to serving small customers as a default supplier. In order for this organization to conduct any other business, a change in the law would be needed.

REP. FISHER remarked that the PSC should determine the licensing criteria and then allow the market to develop on its own.

MR. QUANDER insisted that the issue of default supplier and supplying green power are two separate issues that need not be linked. The default supplier issue addresses providing a safety net in the supplier of last resort arrangement. That entity need not provide a green power product, although the statute does encourage that it do so. Other entities are able to market green power at this time.

VI TAXABLE ISSUES

Warren McConkey, Flathead Electric Cooperative (FEC) and Energy Northwest ---- (ENI), noted that both FEC and ENI are customer owned, not-for-profit utilities. ENI was set up to serve three cities that exceed a population of 3,500 customers and includes the cities of Kalispell, Whitefish and Columbia Falls. This created the taxation disparity between the different segments of their operation. ENI is assessed at a 12% tax rate in the urban portion of the system. This area does not have a payment in lieu of taxes component. The portion of FEC which served the 12,000 customers prior to the acquisition of PacifiCorp continues to be taxed at a 3% rate. The acquired rural portions of PacifiCorp, approximately 25,000 customers, is taxed at 3% but the agreement prior to the acquisition was that all local governments would be kept whole regarding taxes received by the local governments. The 9% differential was addressed in year one and was simple to administer. The PacifiCorp equipment was taxed at the higher

rate. The FEC equipment was taxed at the lower rate. As equipment is replaced, this becomes increasingly complex. The ENI tax bill received from Flathead County was based on the acquisition price. The market value increased 20% and the tax rate stayed at 12%. The tax bill increased by \$444,000 in Kalispell. This was negotiated by reducing the payment-in-lieu by \$444,000.

If there is reform to property taxes, fairness measures need to be addressed. The customers completely reimburse the utilities for taxes. For the Cooperatives, this is a line item which is 100% reimbursed. If the distribution portion of the industry is to continue to be non-competitive, taxation needs to be fair at the customer level. Reimbursement to counties and local governments also needs to be fair.

In the first year following the consolidation, FEC/ENI lost \$1.6 million. The rate moratorium affects the financial health of their organization. A revenue change is needed and would fall into the extraordinary circumstances category. The losses can be attributed to surprises in the wholesale power market. It is important that ENI be consolidated with FEC. Legislative support may be necessary to accomplish this goal. The BPA preference rate is denied to ENI. The cooperative owns poles and wires and the locally elected board is non-profit. ENI is not eligible to be an electric cooperative under the law and thus has been denied preference power. This one line item contributed \$700,000 to their loss last year. The meters measured the kilowatt hours at the substation. If the energy supply went to ENI, it cost 18% more than if the energy supply went to Flathead Electric. This is a political problem that needs to be addressed.

In regard to green power, the FEC purchased one megawatt of environmentally preferred power from the BPA approximately eight months ago. After six months of aggressive marketing to 50,000 customers, they have 180 customers who have chosen green power. This is a disappointing track record.

REP. BERGSAGEL asked the cost of green power. **Mr. McConkey** stated that green power is set at 35 mills delivered and preference power is 26 mills delivered.

REP. FISHER asked if there had been a financial advantage realized by the tax rate reduction from 12% to 6%. **Mr. McConkey** remarked that FEC is purchasing 70 megawatts of power from PacifiCorp directly. Another 70 megawatts is sold to Columbia Falls Aluminum Company. They are buying all of PacifiCorp's generation from Colstrip. This is under fixed price contracts prior to the enactment of HB 174. There has been no price reduction to incorporate the 6% tax reduction.

SEN. DOHERTY asked **Mr. McConkey** if they were seeking tax clarification and or a tax reduction. **Mr. McConkey** remarked that they were seeking tax clarification but tax rates also needed to be fair and

to address the growing problems.

SEN. DOHERTY asked the amount of tax decrease enjoyed by PP&L and where the money was used.

Mr. McConkey remarked that would be in the Form 1 filing. The delivered price before and after the price reduction is the same.

Mr. McConkey added that the Cooperatives are working on a background survey to determine utility taxes and will provide a proposal to the legislature.

VII MARKET POWER AND BARRIERS TO ENTRY

MR. MALY provided a handout entitled, "Market Power & Barriers to Entry: Talking points for a TAC Round Table Discussion", **Exhibit 2**.

COMMISSIONER ANDERSON provided a memo regarding the status of competition, **Exhibit 3**. **Will Rosquist, PSC**, noted that the majority of residential customers who have moved to choice would be in the Great Falls area. Energy West Resources, Inc. provides gas supply in the Great Falls area and has also obtained a license to provide electricity. Customers familiar with the Energy West service probably feel comfortable in dealing with the company.

James Morin, Energy West Resources, Inc., provided written testimony with respect to issues involving deregulation and the competitive marketplace in Montana, **Exhibit 4**. Energy West Resources, Inc. currently serves between 70 to 80 megawatts of power to customers on choice. They serve approximately 85% to 90% of the residential customers who have left the MPC system. They also serve large industrial customers. They have an energy imbalance problem. One of their customer groups is the Leagues of Cities and Towns, which represents the 23 largest cities in the state. They serve the electric load to all the cities for their municipal facilities. Imbalance penalties are tremendous barriers to offering competitive products that customers desire. Imbalance is the difference between scheduled energy and usage.

SEN. SPRAGUE commended Energy West Resources, Inc. for their efforts in serving the small residential customer. He suggested that the company be more involved in future TAC discussions.

REP. FISHER remarked that his understanding from **Mr. Morin's** statement is that Energy West Resources, Inc. would support the idea that default suppliers should be licensed and then let the market

develop without regulations. **Mr. Morin** expressed a concern about the selection of the default supplier. The default supplier should not be an impediment to the competitive marketplace. The default supplier needs to be competitively neutral and not given any additional advantage. They are currently a licensed supplier and would like to apply to be a default supplier but need more clarification of the rules before doing so. They are absolutely committed to serving the residential and small commercial customer and currently serve customers all over the state. Their first customer was from Missoula. They have offered green power and also found that customers do not want to pay the premium involved. As the market matures, green power may be in demand.

CHAIRMAN THOMAS questioned whether the MPC website included links to energy suppliers. **Deb Young, MPC**, explained that the MPC website includes a list of licensed suppliers for gas and electric serving MPC service territory. There are no links to the individual suppliers but phone numbers and address information is provided.

Ron Perry, Commercial Energy, conveyed that he has spoken to the PSC regarding the possibility of having a link with their license information on the PSC website. They have not requested that this be provided but have learned that it is possible for this to be set up on the website. **Ms. Young** added that the MPC website includes a link to the PSC website.

MS. HADLEY questioned whether a residential customer needed to commit to a certain length of time to receive service from Energy West Resources, Inc. **Mr. Morin** stated that they normally have a one year contract but also try to parallel their contracts with the energy supply. For example, if they are able to supply power at a savings rate for eight months, they will provide a contract for an eight-month period. There is a definite beginning and end to the power supply being purchased by the customer.

REP. QUILICI asked who handled service calls for the customer. **Mr. Morin** noted that this would be the responsibility of the distribution company. This is explained to the customer and is part of the billing statement.

Mr. Perry remarked that the rate moratoriums on gas and electricity have benefitted the ratepayers. The net present value of those savings is beneficial to customers. These savings would not have occurred without deregulation. He believes that the lowest energy rates in the nation in the year 2000 will be in Montana due to a buy back contract negotiated with PP&L for this year. Even if customers are not moving to choice, ratepayers are saving money.

Commercial Energy's market strategy has been to grow slowly with existing customers. Today they service hospitals, convenience stores, light manufacturing companies and several schools. The FERC tariffs and the energy imbalance are not the customer's problem, they are the market's problem. However, market prices cannot be controlled.

In regard to the billing statements, the qualifying facility Competitive Transition Charges are still built into the "rate". This is not the rate the energy supplier needs to beat and can be confusing to the customer.

Ms. Young clarified that to the extent that CTCs have been broken out of rates, this information is reflected in the billing statements. There is still a portion of costs that could be future CTCs that are included in the supply rate.

Mr. Perry maintained that the customer was not able to make this comparison. In the marketplace, customers are presented with opportunities to save money that are premised on the current rate which will decrease when the CTC issue is resolved.

Retailing energy supply is expensive. The margin is 2% to 5%. There is a lot of risk involved. Also, Montana is an expensive state for marketing due to the long distances between towns. One of the guarantees of the Georgia pilot program for natural gas was if a supplier obtained 12% of the market in the pilot program, they were able to receive 12% of the default obligation, if they wanted it. The only companies that are legitimate default supplier providers are the ones who are active in the market. The issues included in providing electric power supply are much too complicated for an inexperienced entity.

Regarding economic development in Montana, perhaps there should be tax breaks for the entities who are profitable in supplying energy. Rather than giving other companies an incentive to move to Montana, the entities who have stood up to the task should be given incentives for creating new jobs and opportunities. This could include matching funds on capital projects.

McKee Anderson, Montana Food Distributors Assn., remarked that using today's rates and looking at protecting the user of 300 kwh who cannot return to the system, the penalty for an averaged sized supermarket would be approximately \$1,000 during the summer months and a \$500 savings during the winter months. This would amount to approximately a \$10,000 penalty. This is a substantial penalty for the main street commercial user of energy supply. The length of terms of contracts is extremely important to those consumers who cannot return to the MPC system once the contract expires.

REP. QUILICI asked the number of power marketers who had contacted PP&L wishing to do business in Montana. **Mark Zorin, PP&L**, explained that they are having discussions with a number of marketers. He noted that PP&L has had 60 days to set up their Montana business.

Mr. Schneider noted that the Montana League of Cities and Towns is a licensed electric supplier. They aggregated 22 cities and towns in the interest of achieving buying power and being able to receive a favorable savings in the market. Also, the Montana School Board Association has been in the market for 67 school districts which includes 283 accounts. They have been in the market with a price refresher RFP opportunity for any supplier and have not received an economic price. These are very attractive accounts but no economically beneficial contract has been obtained. There is no one offering residential power today who can beat MPC's existing unbundled rate. Unless the market changes dramatically between now and 2002, most residential customers will not have moved to choice. The large industrial customers are the only ones who have been moving to choice. The MPC has told the PSC that it would take one year from the time of notice for them to be prepared to supply the default customers. He emphasized the fact that the MPC is very experienced in supplying energy. Timing is important in terms of the selection of default supplier.

MR. QUANDER remarked that the rate moratorium resulted in a fixed market. PP&L is committed to provide power to MPC at a rate that is approximately 22.5 mills. It has been mentioned that the market is anywhere from 26 mills to 34 mills. If there were no choice, a market rate would still be present in Montana in 2002.

VIII MEMBER AND STAFF UPDATES

MR. QUANDER stated that due to the TAC's strong resolution, the Department of Revenue did revise its rules for qualifying for USBP credits to allow expenditures for low income programs which qualified.

Ms. Kuntz suggested that a panel presentation be provided at a future meeting regarding regional transmission organization.

Ms. Young remarked that the MPC has had extensive TV and newspaper advertising on customer choice in late December and January. They are in the process of completing a separate mailing to every customer.

MS. HADLEY related that NCAT is launching a school solar locate project that is funded under USBP funds. She provided materials on the endeavor, **Exhibit 5**. Also, NCAT has launched a Montana solar initiative. A group of approximately 30 individuals have been meeting on this issue. She provided another

handout on this matter, **Exhibit 6**. In several weeks they will be announcing a residential project for solar technology applications. They will be looking for homes with good locations for solar sites. A buy down on the project will be provided for persons in the MPC service territory.

MR. MALY provided a handout showing the TAC website, **Exhibit 7**.

VIII ADMINISTRATIVE MATTERS

< Budget Subcommittee Report and Recommendations

Motion: REP. JOHNSON MOVED THE COMMITTEE'S ACCEPTANCE, CONCURRENCE, RATIFICATION, AND ADOPTION OF THE BUDGET SUBCOMMITTEE'S REPORT AND RECOMMENDATIONS.

SEN. SPRAGUE remarked that the recommendation is to cut the funding from \$100,000 to \$50,000 for the remainder of the interim. If any amount were left over, it would be rebated on the basis of which it was provided. He raised a concern about the need for more community-based participation in TAC meetings. He further suggested that the budget amount be changed to \$75,000.

REP. JOHNSON remarked that the TAC would not dissolve until 2002 or until a deregulation period is completed. Too much time has been spent on discussing a default supplier since a default supplier is already provided for in the law. The TAC and the PSC have not addressed how customers choose an electric energy supplier.

Amended Motion/Vote: SEN. LYNCH MOVED TO AMEND THE MOTION TO CHANGE THE BUDGET AMOUNT TO \$75,000 WITH SOME DEGREE OF FLEXIBILITY. THE MOTION CARRIED.

< Location and Key Topics for Next Meeting

CHAIRMAN THOMAS stated that topics for the next meeting would include a presentation on regional transmission organization proposals and review of USBP expenditures from the past year.

The next meeting is scheduled to be held in Billings on April 21st. However, as this is Good Friday, the meeting date may be moved to April 20.

IX ADJOURNMENT

There being no further business, the meeting was adjourned.

Sen. Fred Thomas, Chairman